



Department of Justice

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JUSTICE DEPARTMENT FILES ANTITRUST LAWSUIT TO STOP NATIONAL CINEMEDIA FROM BUYING SCREENVISION

Deal Would Combine the Only Two Major Cinema Advertising Networks, Resulting in Higher Prices to Advertisers and Harm to Movie Theaters Throughout the United States

The Department of Justice filed a civil antitrust lawsuit today seeking to block National CineMedia Inc.'s (NCM) \$375 million acquisition of Screenvision LLC. The department said that the acquisition would combine the only two significant cinema advertising networks in the United States, eliminating competition that has substantially benefitted movie theaters, advertisers and, ultimately, movie goers.

The Antitrust Division's lawsuit, which seeks to prevent the companies from merging and to preserve their existing head-to-head competition, was filed in the United States District Court for the Southern District of New York.

"The proposed combination of NCM and Screenvision is a bad deal for movie theaters, advertisers and consumers. This merger to monopoly is exactly the type of transaction the antitrust laws were designed to prohibit," said Assistant Attorney General Bill Baer of the Justice Department's Antitrust Division. "If this deal is allowed to proceed, the benefits of competition will be lost, depriving theaters and advertisers of options for cinema advertising network services and risking higher prices to movie goers."

Cinema advertising networks are intermediaries between movie theaters and advertisers. The networks create "pre-shows" – 20 to 30 minute long programs combining advertisements with special content – which movie theaters play prior to the start of each movie. The cinema advertising networks and movie theaters share the advertising revenue based on the specific financial terms of each theater's contract.

According to the department's complaint, NCM and Screenvision together serve 88 percent of all movie theater screens in the United States through long-term, exclusive contracts.

Over the past two years, competition between NCM and Screenvision intensified as Screenvision became a particularly aggressive competitor, increasing its efforts to steal business from NCM by dramatically reducing the prices it charges advertisers and offering movie theaters a variety of attractive financial incentives. The complaint contains statements from NCM's and

Screenvision's executives describing the competition between the two companies and the motivation to end that competition by entering into the transaction:

- Aggressive competition between NCM and Screenvision for movie theaters led NCM to observe that “we need to buy [Screenvision] before either us or [Screenvision] does a stupid deal.”
- By April 2014, NCM arrived at what it called a “Strategy Decision Crossroads.” As NCM had told its board it could either acquire Screenvision, which would give NCM the ability to “Control Selling Tactics,” including “Pricing,” or it could compete through more aggressive pricing and adding theaters to its network. NCM chose to buy out its competitor.
- NCM viewed Screenvision's “new strategy of undercutting [NCM's] pricing by 50 percent (or more) [as] a direct threat to [NCM's] business model” and “a very unusual strategy in a duopoly.”

The complaint alleges that, by eliminating competition, the merger likely will result in advertisers paying more for cinema advertising and movie theaters receiving less revenue. For movie theaters, the revenue earned through pre-show advertisements provides an important source of income. Reduced advertising revenues are likely to result in movie theaters having to raise ticket or concession prices to consumers or forego theater upkeep and improvements.

The three largest movie theater circuits in the United States – Regal Entertainment Group, AMC Entertainment Inc. and Cinemark Holdings Inc. – together are the majority owners of NCM. The complaint alleges that these three circuits – which NCM refers to as the “Founding Members” – exercise significant control and influence over NCM's actions, including the right to block NCM from entering into contracts with independent movie theaters that contain upfront payments exceeding \$1 million. Such payments have been an important area of competition between NCM and Screenvision.

National CineMedia LLC is a Delaware company headquartered in Centennial, Colorado. It has contracts with 39 movie theaters, creating a cinema advertising network with nationwide coverage of approximately 19,800 of the 39,000 movie screens in the United States. In 2013, NCM earned approximately \$426 million in advertising revenue.

National CineMedia Inc. is Delaware corporation also headquartered in Centennial, Colorado. It is the managing member and minority owner of National CineMedia LLC.

Screenvision LLC and its parent, SV Holdco LLC, are Delaware companies headquartered in New York, New York. Screenvision has contracts with 177 movie theaters, with nationwide coverage of approximately 14,200 screens. In 2013, Screenvision earned approximately \$160 million in advertising revenue.

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